

HUMBOLDT COUNTY MEMORIAL HOSPITAL
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2013 AND 2012

HUMBOLDT COUNTY MEMORIAL HOSPITAL

Contents

	<u>Page</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS:	
Consolidated Statements of Net Position	4
Consolidated Statements of Revenues, Expenses and Changes in Net Position	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	8
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule	22
SUPPLEMENTARY INFORMATION:	
Consolidating Schedules:	
Consolidating statements of net position	23
Consolidating statements of revenues, expenses and changes in net position	25
Schedules Supporting Consolidated Statements of Net Position:	
Patient receivables	27
Inventory/Prepaid expense	28
Schedules Supporting Consolidated Statements of Revenues, Expenses and Changes in Net Position:	
Patient service revenue	29
Revenue and related adjustments	30
Nursing service expenses	31
Other professional service expenses	33
Senior housing expenses	35
General service expenses	36
Fiscal and administrative service expenses	37
Comparative Statistics	39
Comparative Statements of Net Position	40
Comparative Statements of Revenues, Expenses and Changes in Net Position	41
COMMENTS AND RECOMMENDATIONS:	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	42
Schedule of Findings	44

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Officials
June 30, 2013

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Tim Anderson, Chairperson	Humboldt, Iowa	2018
Rod Harklau, Vice-Chairperson	Humboldt, Iowa	2018
David Boswell, Secretary	Humboldt, Iowa	2016
Steve Long, Treasurer	Humboldt, Iowa	2016
Marlene Thompson	Humboldt, Iowa	2016
Pam Olson	Humboldt, Iowa	2014
Scott Curran	Humboldt, Iowa	2018

Chief Executive Officer:

James Atty	Humboldt, Iowa
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Chief Financial Officer:

Arthur Holle	Humboldt, Iowa
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Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Humboldt County Memorial Hospital
Humboldt, Iowa

Report on the Financial Statements

We have audited the accompanying consolidated statements of net position of Humboldt County Memorial Hospital as of June 30, 2013 and 2012 and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Trustees
Humboldt County Memorial Hospital

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

The financial statements do not include an estimate of an Other Post Employment Benefits (OPEB) liability for an implicit health insurance premium rate subsidy resulting from the legal requirement to allow employees retiring after age 55 to remain on the Hospital's healthcare plan until age 65. Accounting principles generally accepted in the United States of America require that any material liability resulting from this OPEB requirement be included in the financial statements (Note N).

Qualified Opinion

In our opinion, except for the effect of not including an estimated OPEB liability for the implicit health insurance premium rate subsidy as discussed in the previous section, the financial statements referred to above present fairly in all material respects, the financial position of Humboldt County Memorial Hospital as of June 30, 2013 and 2012 and the results of its operations, changes in financial position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 3 through 3e and on page 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Humboldt County Memorial Hospital's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended June 30, 2011 (which are not presented herein) and expressed qualified opinions on those financial statements. The supplementary information on pages 1 and 23 through 41 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Trustees
Humboldt County Memorial Hospital

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued our report dated October 8, 2013 on our consideration of Humboldt County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Atkinson, Bill, Thyer - W. P. C.

Atlantic, Iowa
October 8, 2013



Committed to Serve; Compassion to Care

HUMBOLDT COUNTY MEMORIAL HOSPITAL

1000 N. 15TH STREET

HUMBOLDT, IOWA 50548

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HUMBOLDT COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis

The financial statements enclosed contain the consolidated financial information of Humboldt County Memorial Hospital and Humboldt County Memorial Hospital Foundation. This discussion and analysis of the Hospital's and Foundation's financial performance provides an overview of their financial activity for the fiscal years ended June 30, 2013, 2012, and 2011. Please read it in conjunction with the Hospital's consolidated financial statements, which begin on page 4.

FINANCIAL HIGHLIGHTS

The Hospital's net position increased in each of the past two years. Net position increased by \$984,754 or 4.9 percent from 2012 to 2013 and by \$324,324 or 1.6 percent from 2011 to 2012.

The Hospital reported operating income of \$37,886 in 2013 and an operating loss of \$101,691 in 2012. The 2013 results reflect an increase of \$139,577 as compared to 2012 results. Operating profit decreased in 2012 as compared to 2011 by \$217,115.

Net non-operating revenues increased by \$517,976 or 123.1 percent in 2013 compared to 2012. Net non-operating revenues decreased in 2012 by \$207,118 or 33.0 percent as compared to 2011.

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

THE STATEMENT OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Our analysis of the Hospital finances begins on page 3a of the financial statements. One of the most important questions to ask about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

These two statements report the Hospital's net position and changes in them. You can think of the Hospital's net position - the difference between assets and liabilities and deferred inflows of resources - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in the Hospital's patient base, changes in local medical staff, access to visiting medical specialists as well as local economic factors to assess the overall health of the Hospital.

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

THE HOSPITAL'S NET POSITION

The Hospital's net position are the difference between its assets and liabilities and deferred inflows of resources as reported in the Statement of Net Position on page 4 of the financial statements. The Hospital's net position increased in each of the past two years by \$984,754 (4.9 percent) in 2013 and \$324,324 (1.6 percent) in 2012, as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets:			
Current assets	\$ 3,683,293	\$ 3,117,633	\$ 2,941,314
Capital assets, net	10,757,905	11,687,887	12,074,861
Other non-current assets	<u>10,193,682</u>	<u>9,497,380</u>	<u>8,794,646</u>
Total assets	<u>\$ 24,634,880</u>	<u>\$ 24,302,900</u>	<u>\$ 23,810,821</u>
Liabilities:			
Long-term debt outstanding, net	\$ 1,856,331	\$ 2,145,622	\$ 2,424,163
Other current and noncurrent liabilities	<u>1,631,239</u>	<u>1,946,550</u>	<u>1,647,619</u>
Total liabilities	<u>3,487,570</u>	<u>4,092,172</u>	<u>4,071,782</u>
Deferred Inflows of Resources:			
Deferred revenue	99,193	147,365	--
Net Position:			
Invested in capital assets, net of related debt	8,612,283	9,217,001	9,382,474
Restricted expendable	2,896,872	2,685,977	2,641,636
Unrestricted	<u>9,538,962</u>	<u>8,160,385</u>	<u>7,714,929</u>
Total net position	<u>21,048,117</u>	<u>20,063,363</u>	<u>19,739,039</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 24,634,880</u>	<u>\$ 24,302,900</u>	<u>\$ 23,810,821</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

The Hospital's total assets increased from \$24,302,900 in 2012 to \$24,634,880 in 2013 (up 1.4%). Capital assets decreased from \$11,687,887 in 2012 to \$10,757,905 in 2013 (down 8.0%). Designated and restricted assets increased from \$9,320,916 in 2012 to \$10,014,948 in 2013 (up 7.4%) as the Hospital was able to grow its reserve funds. Operating income increased in 2013 by \$139,577 from 2012.

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION

In 2013, the Hospital's net position increased by \$984,754 or 4.9 percent, as shown in Table 2. This increase is made up of many different components. Total net position at the end of 2013 was \$21,048,117 and \$20,063,363 at year-end 2012.

Table 2: Operating Results and Changes in Net Position

	2013	2012	2011
Operating Revenues:			
Net patient service revenues	\$ 11,804,323	\$ 11,467,811	\$ 10,777,543
Other operating revenues	<u>1,389,243</u>	<u>1,321,582</u>	<u>1,344,515</u>
Total operating revenues	13,193,566	12,789,393	12,122,058
Operating Expenses:			
Salaries and benefits	6,998,476	6,725,540	6,300,742
Professional fees	1,735,274	1,697,069	1,289,469
Other operating expenses	3,270,726	3,273,857	3,244,623
Depreciation and amortization	<u>1,151,204</u>	<u>1,194,618</u>	<u>1,171,800</u>
Total operating expenses	13,155,680	12,891,084	12,006,634
Operating Income (Loss)	37,886	(101,691)	115,424
Non-Operating Revenues and Expenses:			
County taxes	300,204	300,250	301,261
Investment income	278,007	160,478	410,383
Non-capital grants and contributions	495,065	71,140	39,367
Other non-operating revenues and expenses, net	<u>(134,608)</u>	<u>(111,176)</u>	<u>(123,201)</u>
Total non-operating revenues (expenses), net	938,668	420,692	627,810
Excess of Revenues Over Expenses Before Capital Grants and Contributions and Change in Accounting Estimate	976,554	319,001	743,234
Capital Grants and Contributions	8,200	5,323	--
Change in Accounting Estimate	<u>--</u>	<u>--</u>	<u>245,000</u>
Increase in net position	984,754	324,324	988,234
Net Position Beginning of Year	<u>20,063,363</u>	<u>19,739,039</u>	<u>18,750,805</u>
Net Position End of Year	<u>\$ 21,048,117</u>	<u>\$ 20,063,363</u>	<u>\$ 19,739,039</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

OPERATING INCOME (LOSS)

The first component of the overall change in the Hospital's net position is its operating income or loss - generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2013, the Hospital reported an operating income of \$37,886, while it had an operating loss of \$101,691 in 2012.

Operating revenues have shown an increase from 2012 to 2013. This increase was mainly due to a full year of operating the pain clinic along with more stability and patient visits in the therapy department.

Revenue increases were noted in Surgery (up \$332,504 / 17.6%), Anesthesiology (up \$209,699 / 30.5%), and Physical Therapy (up \$366,831 / 69.4%).

With the increase in revenue, contractual adjustments increased \$606,280 (up 19.0%).

The total cost of labor – wages and benefits – continues to be the largest component of the Hospital's expenses with general supplies being the second highest. With the increase in revenue, the Hospital's wages increased. Employees and their families on the Hospital's self-funded health insurance were healthier bringing employee benefits expense down.

Increase in labor costs of \$448,951 (up 9.1%)

Decrease in employee benefits of \$176,015 (down 9.7%)

The rate of healthcare inflation has a direct effect on the cost of services provided by the Hospital. The Hospital continues to grow its technology in the area of clinical care, patient diagnostics and electronic health records. Investments in the facility and technology improve the efficiency of the Hospital and increase its ability to provide quality affordable healthcare locally.

HUMBOLDT COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis - Continued

The Hospital sometimes provides care for patients who have little or no health insurance or other means of payment. This service to the community is consistent with the goals established for the Hospital when it was established in 1970 when it was agreed that a portion of the Hospital's costs would be subsidized by property tax revenues, making the facility more affordable to the County's lower income residents. This is reflected in the Hospital's accounts written off as uncollectible. In 2012, \$285,835 in accounts was written off as uncollectible. This figure increased to \$303,896 in 2013. This reflects a 6.3% percent increase over this two year period. This figure does not include the \$118,390 in approved Charity Care applications which has increased as more patients are unable to pay for services.

NON-OPERATING REVENUES AND EXPENSES

Non-operating revenues consist primarily of property taxes levied by the Hospital and income from investments. The Hospital has maintained its tax asking at approximately \$300,000 over the past three years. Non-capital grants and contributions increased by \$423,925 or 595.9% when compared to 2012 which was due to a bequest of approximately \$357,000. Investment income increased by \$117,529 or 73.2% as the equity investments held by the Foundation experienced a large increase in market value during 2013 that it did not in 2012. Hospital interest expense decreased \$10,387 from 2012. Overall, net non-operating revenues increased from \$420,692 to \$938,668 from 2012 to 2013.

THE HOSPITAL'S CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating profits and non-operating revenues and expenses. The net change in the Hospital's cash position is an increase of \$868,099 in 2013 from 2012.

BUDGETARY HIGHLIGHTS

Actual expenses were lower than the amended budget by \$1,031,029. Actual revenues were lower than budgeted by \$557,255.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2013, the Hospital had approximately \$10.8 million invested in capital assets, net of accumulated depreciation, as detailed in Note H to the financial statements. In 2013, the Hospital purchased new property and moveable equipment costing \$196,212. Of this, none was acquired through capital leases.

Debt:

At year-end 2013, the Hospital had a \$2,109,622 revenue note (bond) outstanding. The Hospital also has outstanding debt of \$36,000 through the Humboldt County Rural Electric Cooperative under the Rural Economic Development Loan and Grant Program. This non-interest bearing loan was used for the assisted living project.

OTHER ECONOMIC FACTORS

Physician recruitment and retention continues to be a goal for the Hospital.

The Hospital continues to deal with the rising cost of health insurance for the general population. This impacts the Hospital through higher deductibles, more coverage limitations and contracted discount requirements by insurance companies and an increasing number of uninsured individuals. Medicaid expansion and the Accountable Care Act will have an impact on this in the future.

Employee retention is an important factor in the success of the Hospital. The need to provide competitive wages and benefits is important in retaining good employees and contributing to the growth of the Hospital.

The Hospital strives to provide state of the art technology and services. Electronic health records will require more people time and costs to keep up with governmental requirements and patient needs. The Hospital also continues to invest in the current facility by completing many updates to its general appearance.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Financial Director's Office, at Humboldt County Memorial Hospital, 1000 North 15th Street, Humboldt, Iowa 50548.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Consolidated Statements of Net Position
June 30,

ASSETS

	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash	\$ 1,231,817	\$ 802,398
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$602,000 in 2013, \$398,000 in 2012)	1,399,315	1,242,060
Other receivables	70,591	65,308
Inventory	175,087	176,402
Prepaid expense	86,495	83,731
Succeeding year property tax receivable	291,000	291,000
Internally designated assets	<u>428,988</u>	<u>456,734</u>
Total current assets	3,683,293	3,117,633
Designated and Restricted Assets:		
Internally designated assets	7,547,064	7,091,673
Restricted assets	<u>2,896,872</u>	<u>2,685,977</u>
	10,443,936	9,777,650
Less amounts required to meet current liabilities	<u>428,988</u>	<u>456,734</u>
	10,014,948	9,320,916
Capital Assets:		
Depreciable capital assets, net	10,548,071	11,495,158
Non-depreciable capital assets	<u>209,834</u>	<u>192,729</u>
	10,757,905	11,687,887
Other Assets:		
Note receivable	28,108	--
Other	<u>150,626</u>	<u>176,464</u>
	178,734	176,464
 Total assets	 <u>\$ 24,634,880</u>	 <u>\$ 24,302,900</u>

The accompanying notes are an integral part of these statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	<u>2013</u>	<u>2012</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 289,291	\$ 278,540
Accounts payable	290,952	454,709
Accrued employee compensation	390,908	350,819
Payroll taxes withheld and accrued	80,687	18,811
Accrued interest payable	14,697	16,470
Senior housing deposits	80,704	79,201
Estimated third-party payor settlements	193,000	457,000
Deferred succeeding year property tax	<u>291,000</u>	<u>291,000</u>
Total current liabilities	1,631,239	1,946,550
Long-Term Debt:		
Note payable, less current maturities	12,000	36,000
Revenue note, less current maturities	<u>1,844,331</u>	<u>2,109,622</u>
Total long-term debt	<u>1,856,331</u>	<u>2,145,622</u>
Total liabilities	3,487,570	4,092,172
Deferred Inflows of Resources:		
Deferred revenue	99,193	147,365
Net Position:		
Invested in capital assets, net of related debt	8,612,283	9,217,001
Restricted - expendable	2,896,872	2,685,977
Unrestricted	<u>9,538,962</u>	<u>8,160,385</u>
Total net position	<u>21,048,117</u>	<u>20,063,363</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 24,634,880</u>	<u>\$ 24,302,900</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Consolidated Statements of Revenues, Expenses and Changes in Net Position
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Revenue:		
Net patient service revenue	\$ 11,804,323	\$ 11,467,811
Other revenue	<u>1,389,243</u>	<u>1,321,582</u>
Total revenue	13,193,566	12,789,393
Expenses:		
Nursing service	2,524,091	2,451,233
Other professional service	4,723,055	4,300,571
Senior housing	462,420	447,434
General service	1,446,611	1,476,538
Fiscal and administrative service	2,848,299	3,020,690
Provision for depreciation	1,125,366	1,170,063
Amortization	<u>25,838</u>	<u>24,555</u>
Total expenses	<u>13,155,680</u>	<u>12,891,084</u>
Operating Income (Loss)	37,886	(101,691)
Non-Operating Revenues (Expenses):		
County taxes	300,204	300,250
Noncapital grants and contributions	495,065	71,140
Investment income	278,007	160,478
Gain (loss) on disposal of equipment	(626)	55
Interest expense	(94,916)	(105,303)
Foundation expense	<u>(39,066)</u>	<u>(5,928)</u>
Non-operating revenues, net	<u>938,668</u>	<u>420,692</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	976,554	319,001
Capital Grants and Contributions	<u>8,200</u>	<u>5,323</u>
Increase in Net Position	984,754	324,324
Net Position Beginning of Year	<u>20,063,363</u>	<u>19,739,039</u>
Net Position End of Year	<u>\$ 21,048,117</u>	<u>\$ 20,063,363</u>

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Consolidated Statements of Cash Flows
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 11,331,116	\$ 11,681,265
Cash paid to suppliers	(6,693,342)	(6,792,759)
Cash paid to employees	(5,338,671)	(4,912,698)
Other revenue	<u>1,389,243</u>	<u>1,321,582</u>
Net cash provided by operating activities	688,346	1,297,390
Cash flows from non-capital financing activities:		
County tax revenue	300,204	300,250
Noncapital grants and contributions	<u>495,065</u>	<u>71,140</u>
Net cash provided by non-capital financing activities	795,269	371,390
Cash flows from capital and related financing activities:		
Capital grants and contributions	8,200	5,323
Principal paid on long-term debt	(278,540)	(268,225)
Capital expenditures	(196,596)	(592,130)
Construction in progress expenditures	(33,428)	(114,023)
Proceeds from disposal of equipment	202	55
Interest paid	(96,689)	(107,005)
Foundation expense	<u>(39,066)</u>	<u>(5,928)</u>
Net cash used in capital and related financing activities	(635,917)	(1,081,933)
Cash flows from investing activities:		
Investment income	98,317	121,348
Change in note receivable	(30,000)	--
Change in designated assets	<u>(47,916)</u>	<u>(812,494)</u>
Net cash provided by (used in) investing activities	<u>20,401</u>	<u>(691,146)</u>
Net increase (decrease) in cash and cash equivalents	868,099	(104,299)
Cash and cash equivalents beginning of year	<u>1,327,357</u>	<u>1,431,656</u>
Cash and cash equivalents end of year	<u>\$ 2,195,456</u>	<u>\$ 1,327,357</u>
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash in current assets	\$ 1,231,817	\$ 802,398
Cash and cash equivalents in designated and restricted assets	<u>963,639</u>	<u>524,959</u>
	<u>\$ 2,195,456</u>	<u>\$ 1,327,357</u>

(continued next page)

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Consolidated Statements of Cash Flows - continued
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 37,886	\$(101,691)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	1,125,366	1,170,063
Amortization	27,730	36,240
Salaries and wages capitalized	(12,912)	(30,212)
Change in assets and liabilities		
Accounts receivable	(162,538)	(149,463)
Inventory	1,315	(26,109)
Prepaid expense	(2,764)	7,604
Accounts payable, trade	(117,033)	51,276
Accrued employee compensation	40,089	34,411
Payroll taxes withheld and accrued	61,876	(57,646)
Senior housing deposits	1,503	(2,448)
Estimated third-party payor settlements	(264,000)	218,000
Deferred revenue	(48,172)	147,365
Total adjustments	<u>650,460</u>	<u>1,399,081</u>
Net cash provided by operating activities	<u>\$ 688,346</u>	<u>\$ 1,297,390</u>

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

Humboldt County Memorial Hospital (the Hospital) is a critical access county hospital with related healthcare ancillary, outpatient, long-term care, and senior housing services. The Hospital is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital. The Hospital has one identified component unit: Humboldt County Memorial Hospital Foundation (the Foundation). Substantially all of the economic resources of the Foundation are designated for the direct benefit of the Hospital. Accordingly, the assets, liabilities, and activities of the Foundation have been consolidated with those of the Hospital in these financial statements. The Foundation is a not-for-profit corporation exempt from income tax under Section 501 of the Internal Revenue Code.

2. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, including designated and restricted assets.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of four years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to forty years for buildings and land improvements and five to twenty years for equipment).

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital did not capitalize any interest costs in 2013 or 2012.

9. Compensated Absences

Hospital employees earn paid time off hours at varying rates depending on years of service. Paid time off accumulates to a maximum of 360 hours for management level employees and 240 hours for all other staff. Any excess over those limits accumulated by the employee's anniversary date is lost. The computed amount of paid time off earned by year end is recorded as part of accrued employee compensation.

10. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

13. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

14. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees based on the facts regarding each specific situation. All of the assets of the Foundation are included in restricted assets on the balance sheets because they are controlled by the Foundation Board.

15. Net Position

Net position of the Hospital is reported in the following three categories. *Invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* consists of noncapital assets that must be used for a particular purpose or permanent endowments, as specified by creditors, grantors, or contributors external to the Hospital. *Unrestricted net position* consists of the remaining net position that does not meet the definition of *invested in capital assets net of related debt or restricted*.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

16. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

17. Accounting Changes

In June, 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."* This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards did not include guidance for these elements, which are distinct from assets and liabilities. This statement is effective for the Hospital for 2012-2013. The Hospital has assessed the financial statement impact of adopting this statement and its impact is not material.

The GASB has issued GASB Statement No. 65 *"Items Previously Reported as Assets and Liabilities"* and GASB Statement No. 66 *"Technical Corrections - 2012."* No. 65 specifies proper accounting treatment for certain items and helps clarify the items that should be included under the categories established under Statement No. 63. No. 66 resolves conflicting guidance that resulted from previously issued Statements No. 54 and No. 62. The Hospital has elected to early implement these Statements, which are required to be implemented in the 2013-2014 year. The Hospital has assessed the financial statement impact of adopting these statements and concluded their impact is not material.

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient services and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediary through June 30, 2011. The Hospital's Medicaid cost reports have been finalized by the fiscal intermediary through June 30, 2010. However, finalized cost reports are subject to re-opening by the intermediaries within three years after the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE C - RESTRICTED NET POSITION

Restricted expendable assets are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Controlled by Foundation Board	\$ 2,696,872	\$ 2,485,892
Long-term debt	<u>200,000</u>	<u>200,085</u>
	<u>\$ 2,896,872</u>	<u>\$ 2,685,977</u>

The Hospital has no restricted nonexpendable assets or endowments at June 30, 2013 or 2012.

Following is a summary of the use of temporarily restricted assets during the year ended June 30:

	<u>2013</u>	<u>2012</u>
Payment of long-term debt	\$ 85	\$ 110
Purchase of property and equipment	8,789	49,213
Foundation operating costs	<u>39,066</u>	<u>5,928</u>
	<u>\$ 47,940</u>	<u>\$ 55,251</u>

NOTE D - DESIGNATED ASSETS

Of the \$9,538,962 (\$8,160,385 as of June 30, 2012) of unrestricted assets as of June 30, 2013, \$7,547,064 (\$7,091,673 for 2012) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule. These assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes.

	<u>2013</u>	<u>2012</u>
Capital acquisitions	\$ 6,695,405	\$ 6,582,544
Employee health insurance	<u>851,659</u>	<u>509,129</u>
	<u>\$ 7,547,064</u>	<u>\$ 7,091,673</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2013 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. See Note O regarding the Foundation's deposits. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. The Foundation is not limited to state investment regulations, and is therefore able to invest in equity securities.

The composition of designated and restricted assets is as follows:

	<u>2013</u>	<u>2012</u>
Internally Designated Assets:		
Cash	\$ 851,659	\$ 509,129
Certificates of deposit	6,689,418	6,575,183
Interest receivable	<u>5,987</u>	<u>7,361</u>
	<u>\$ 7,547,064</u>	<u>\$ 7,091,673</u>
Restricted Assets:		
Cash	\$ 111,980	\$ 15,830
Certificates of deposit	404,188	518,733
Equity securities	2,380,578	2,150,672
Interest receivable	<u>126</u>	<u>742</u>
	<u>\$ 2,896,872</u>	<u>\$ 2,685,977</u>

Investment income for designated and restricted assets, cash equivalents, and other investments is comprised of the following for the year ended June 30:

	<u>2013</u>	<u>2012</u>
Interest income	\$ 47,984	\$ 70,068
Dividend income	50,333	51,280
Unrealized gains on investments	<u>179,690</u>	<u>39,130</u>
	<u>\$ 278,007</u>	<u>\$ 160,478</u>

The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE F - FAIR VALUE MEASUREMENTS

The Hospital's investments are reported at fair value in the accompanying balance sheets. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs are unobservable and have the lowest priority. The Hospital uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Hospital measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 1 inputs were available for all investments at June 30, 2013 and 2012.

Level 1 Fair Value Measurements

The fair value of equity securities is based on quoted net asset values of the shares held by the Hospital at year-end. Level 1 fair values for equity securities using quoted prices on active markets for identical assets were \$2,380,578 at June 30, 2013 (\$2,150,672 at June 30, 2012).

NOTE G - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2013 and 2012, was as follows:

	<u>2013</u>	<u>2012</u>
Receivable from:		
Patients	\$ 263,512	\$ 207,019
Medicare	962,998	794,712
Medicaid	82,914	71,086
Wellmark	275,733	262,525
Other commercial insurance carriers	409,651	282,043
Others	<u>6,507</u>	<u>22,675</u>
	2,001,315	1,640,060
Less allowances for doubtful accounts and contractual adjustments	<u>602,000</u>	<u>398,000</u>
	<u>\$ 1,399,315</u>	<u>\$ 1,242,060</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE H - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2013 and 2012 were as follows:

<u>Cost</u>	<u>Balance 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2013</u>
Land Improvements	\$ 233,159	\$ --	\$ 6,402	\$ 226,757
Buildings and Fixed				
Equipment	12,599,620	111,279	643,184	12,067,715
Major Movable Equipment	7,041,711	51,500	2,875,780	4,217,431
Senior Housing Assets	<u>5,136,584</u>	<u>16,328</u>	<u>7,029</u>	<u>5,145,883</u>
	25,011,074	179,107	3,532,395	21,657,786
<u>Depreciation</u>				
Land Improvements	114,868	10,622	6,402	119,088
Buildings and Fixed				
Equipment	5,435,660	482,414	643,130	5,274,944
Major Movable Equipment	5,660,004	387,966	2,875,006	3,172,964
Senior Housing Assets	<u>2,305,384</u>	<u>244,364</u>	<u>7,029</u>	<u>2,542,719</u>
Total Depreciation	<u>13,515,916</u>	<u>1,125,366</u>	<u>3,531,567</u>	<u>11,109,715</u>
Total Depreciable Capital Assets, Net	<u>\$ 11,495,158</u>	<u>\$ (946,259)</u>	<u>\$ 828</u>	<u>\$ 10,548,071</u>
Construction in Progress	\$ 144,235	\$ 46,340	\$ 29,235	\$ 161,340
Land	<u>48,494</u>	<u>--</u>	<u>--</u>	<u>48,494</u>
Total Non-Depreciable Capital Assets	<u>\$ 192,729</u>	<u>\$ 46,340</u>	<u>\$ 29,235</u>	<u>\$ 209,834</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE H - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2012</u>
Land Improvements	\$ 149,788	\$ 83,371	\$ --	\$ 233,159
Buildings and Fixed				
Equipment	12,517,728	81,892	--	12,599,620
Major Movable Equipment	6,573,867	505,088	37,244	7,041,711
Senior Housing Assets	5,136,584	--	--	5,136,584
	<u>24,377,967</u>	<u>670,351</u>	<u>37,244</u>	<u>25,011,074</u>
<u>Depreciation</u>				
Land Improvements	105,391	9,477	--	114,868
Buildings and Fixed				
Equipment	4,937,450	498,210	--	5,435,660
Major Movable Equipment	5,280,754	416,494	37,244	5,660,004
Senior Housing Assets	2,059,502	245,882	--	2,305,384
	<u>12,383,097</u>	<u>1,170,063</u>	<u>37,244</u>	<u>13,515,916</u>
Total Depreciation				
	<u>12,383,097</u>	<u>1,170,063</u>	<u>37,244</u>	<u>13,515,916</u>
Total Depreciable Capital				
Assets, Net	<u>\$ 11,994,870</u>	<u>\$ (499,712)</u>	<u>\$ --</u>	<u>\$ 11,495,158</u>
Construction in Progress	\$ 31,497	\$ 144,235	\$ 31,497	\$ 144,235
Land	<u>48,494</u>	<u>--</u>	<u>--</u>	<u>48,494</u>
Total Non-Depreciable				
Capital Assets	<u>\$ 79,991</u>	<u>\$ 144,235</u>	<u>\$ 31,497</u>	<u>\$ 192,729</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE I - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2013 and 2012 follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2013</u>	<u>Current Portion</u>
Long-Term Debt:					
Rural Economic					
Development Loan	\$ 60,000	\$ --	\$ 24,000	\$ 36,000	\$ 24,000
Series 2008 Revenue					
Note	<u>2,364,162</u>	<u>--</u>	<u>254,540</u>	<u>2,109,622</u>	<u>265,291</u>
Total Non-Current					
Liabilities	<u>\$2,424,162</u>	<u>\$ --</u>	<u>\$ 278,540</u>	<u>\$2,145,622</u>	<u>\$ 289,291</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Current</u>
	<u>2011</u>			<u>2012</u>	<u>Portion</u>
Long-Term Debt:					
Rural Economic					
Development Loan	\$ 84,000	\$ --	\$ 24,000	\$ 60,000	\$ 24,000
Series 2008 Revenue					
Note	<u>2,608,387</u>	<u>--</u>	<u>244,225</u>	<u>2,364,162</u>	<u>254,540</u>
Total Non-Current					
Liabilities	<u>\$2,692,387</u>	<u>\$ --</u>	<u>\$ 268,225</u>	<u>\$2,424,162</u>	<u>\$ 278,540</u>

In December, 2004, the Hospital borrowed \$240,000 through the Humboldt County Rural Electric Cooperative under the Rural Economic Development Loan and Grant Program. The loan is non-interest bearing and is payable in forty equal quarterly installments which began April 1, 2005. The loan is collateralized by the Hospital's net revenues generated by the senior housing assisted living facility.

The Series 2008 Hospital Revenue Note was issued in May, 2008 and is collateralized by the Hospital's net revenues. The note was issued for the purpose of refunding the Series 2000 and Series 2001 revenue bonds. The note matures in semi-annual payments of \$175,365, including interest at 4.18% per annum, through May, 2020.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE I - NON-CURRENT LIABILITIES - Continued

The combined annual debt service on the loan and note is expected to require less than 25% of cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$375,000 and \$2,231,000 respectively.

Under the terms of the revenue note indentures, the Hospital is required to maintain certain deposits with a bank. Such deposits are included with restricted assets in the financial statements. The indentures also place limits on the incurrence of additional borrowings and require that the Hospital satisfy certain measures of financial performance as long as the note is outstanding.

Scheduled principal and interest repayments on long-term debt are as follows:

Year Ending June 30,	Long-Term Debt		
	Principal	Interest	Total
2014	\$ 289,291	\$ 85,439	\$ 374,730
2015	288,496	74,234	362,730
2016	288,174	62,556	350,730
2017	300,345	50,385	350,730
2018	313,031	37,699	350,730
2019-2020	<u>666,285</u>	<u>35,173</u>	<u>701,458</u>
	<u>\$ 2,145,622</u>	<u>\$ 345,486</u>	<u>\$ 2,491,108</u>

NOTE J - DEFERRED INFLOWS OF RESOURCES

The \$99,193 of deferred inflows of resources at June 30, 2013 (\$147,365 at June 30, 2012) consists of electronic health records incentive payments. This revenue will be recognized over five years, as the related equipment is depreciated.

NOTE K - PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.78% (5.95% beginning July 1, 2013) of their annual salary and the Hospital is required to contribute 8.67% (8.93% beginning July 1, 2013) of annual covered payroll. Contribution rates are slightly higher when employees are performing emergency response services. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011 were approximately \$457,000, \$393,000, and \$329,000, respectively, equal to the required contributions for each year.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE L - DEFERRED COMPENSATION PLAN

The Hospital sponsors a deferred compensation plan which is administered by an independent contractor under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Hospital's accounting and personnel departments are responsible for the accounting, reconciliations and record keeping associated with employees' enrollment, payments to the plan through payroll deductions, and timely transfer of withheld funds to the trustee designated by the participant for investment. The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The Hospital's fiduciary responsibility is limited to due care in selecting the plan administrator. The administrator is responsible for withholdings and W-2s when the participants receive payments. The administrator is also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2013 was approximately \$159,000 (\$118,000 at June 30, 2012). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

NOTE M - AFFILIATED ORGANIZATION

The Hospital has an operating agreement with Trinity Health Systems (Trinity). Under the agreement, the Hospital's Chief Executive Officer is an employee of Trinity and the Hospital reimburses Trinity for the cost of the Chief Executive Officer's salary and benefits. The Hospital also pays a monthly fee to Trinity for management services. Under the agreement, Trinity exercises joint authority over the Hospital's operations with the Hospital's board. Trinity consults and works with the Hospital's board in formulating management strategies and recommendations regarding operations. Below is a list of transactions between the Hospital and this affiliate for the years ended June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Fees to Trinity for personnel and services	<u>\$ 208,059</u>	<u>\$ 217,416</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE N - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Hospital employees, and the retirees must pay the full cost of the health insurance premium equal to that charged for current employees. There are approximately 100 active employees and 2 retirees currently covered by the plan.

Funding Policy: The Hospital does not set aside funds to pay for any OPEB liability. Any Hospital costs of an implicit health insurance premium rate subsidy are charged to expense in the year paid.

Net OPEB Obligation: Management of the Hospital considers any OPEB obligation, which may exist, to be immaterial. Therefore the Hospital has elected to not obtain an actuarial evaluation of the OPEB liability.

Generally accepted accounting principles, established under GASB Statement No. 45, require that an actuarial or alternative computation of a liability be completed. The independent auditor's report regarding the financial statements has been qualified as a result of not obtaining the required evaluation and not recording any potential material OPEB liability.

NOTE O - COMMITMENTS AND CONTINGENCIES

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Humboldt County Memorial Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Construction in Progress

As of June 30, 2013, the Hospital has incurred costs totaling \$161,340 on equipment and room remodels which will be put into service in subsequent years. Of this amount, \$115,000 represents a down payment on upgrades to the Hospital's information technology hardware and software package with a total estimated cost of \$1,400,000. Funding for this package will be provided by funds generated internally. The remaining \$46,340 in construction in progress relates to projects for which no material commitments exist at June 30, 2013.

Self-Funded Health Insurance

The Hospital has established an employee health insurance fund. Under the self-insured plan, the Hospital pays claims from this fund up to maximum limits and carries stop loss insurance for claims in excess of the limits. At June 30, 2013, the Hospital has designated funds in excess of actual claims paid of \$851,659 (\$509,129 at June 30, 2012). This amount of funds, shown under internally designated assets, would be made available should they be needed to pay claims in the future. The estimated amount of unpaid claims at June 30, 2013 is \$125,000 (\$115,000 at June 30, 2012) and is included in accounts payable.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE O - COMMITMENTS AND CONTINGENCIES - Continued

Note Receivable

The note receivable represents funds advanced under an agreement with a healthcare professional practicing in the community. The agreement includes commitments by the healthcare professional to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the note over the term of the commitments.

Off-Balance Sheet Risk

The Foundation maintains its deposits at a local bank. At various times throughout the year and at year end, the deposits in the bank exceeded the FDIC insured deposits limit for one entity (by approximately \$96,000 at year end). Management of the Foundation has received no indication of any potential viability problems with the bank by the date of this report.

The Foundation maintains approximately \$2,381,000 of its investment portfolio in various mutual funds, none of which are covered by any form of insurance against loss.

Subsequent Events

The Hospital has evaluated all subsequent events through October 8, 2013, the date the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Budgetary Comparison Schedule
Year Ended June 30, 2013

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the accrual basis used to prepare the budget. The adjustments result from accounting for interest, Foundation activity, and net position differently for financial statement and budget purposes.

	Per Financial Statements		
	Unrestricted Fund	Restricted Fund	Total
Amount raised by taxation	\$ 300,204	\$ --	\$ 300,204
Other revenues	13,620,461	258,835	13,879,296
Transfers in (out)	<u>8,874</u>	<u>(8,874)</u>	<u>--</u>
	13,929,539	249,961	14,179,500
Expenses	<u>13,155,680</u>	<u>39,066</u>	<u>13,194,746</u>
Net	773,859	210,895	984,754
Balance beginning of year	<u>17,377,386</u>	<u>2,685,977</u>	<u>20,063,363</u>
Balance end of year	<u>\$ 18,151,245</u>	<u>\$ 2,896,872</u>	<u>\$ 21,048,117</u>

	Total Per Financial Statements	Budget Adjustments	Budget Basis	Amended Budget
Amount raised by taxation	\$ 300,204	\$ --	\$ 300,204	\$ 295,464
Other revenues	<u>13,879,296</u>	<u>(155,130)</u>	<u>13,724,166</u>	<u>14,286,161</u>
	14,179,500	(155,130)	14,024,370	14,581,625
Expenses	<u>13,194,746</u>	<u>55,850</u>	<u>13,250,596</u>	<u>14,281,625</u>
Net	984,754	(210,980)	773,774	300,000
Balance beginning of year	<u>20,063,363</u>	<u>(2,465,960)</u>	<u>17,597,403</u>	<u>17,597,403</u>
Balance end of year	<u>\$ 21,048,117</u>	<u>\$(2,676,940)</u>	<u>\$ 18,371,177</u>	<u>\$ 17,897,403</u>

See Independent Auditor's Report.

SUPPLEMENTARY INFORMATION

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Consolidating Statements of Net Position
June 30, 2013

ASSETS

	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Current Assets:			
Cash	\$ 1,231,817	\$ --	\$ 1,231,817
Patient receivables, net	1,399,315	--	1,399,315
Other receivables	70,591	--	70,591
Inventory	175,087	--	175,087
Prepaid expense	86,495	--	86,495
Succeeding year property tax receivable	291,000	--	291,000
Internally designated assets	<u>428,988</u>	<u>--</u>	<u>428,988</u>
Total current assets	3,683,293	--	3,683,293
Designated Assets:			
Internally designated assets	7,547,064	--	7,547,064
Restricted assets	200,000	2,696,872	2,896,872
Current portion	<u>(428,988)</u>	<u>--</u>	<u>(428,988)</u>
	7,318,076	2,696,872	10,014,948
Depreciable Capital Assets, Net	10,548,071	--	10,548,071
Non-depreciable Capital Assets	209,834	--	209,834
Other Assets:			
Notes receivable	28,108	--	28,108
Other	<u>150,626</u>	<u>--</u>	<u>150,626</u>
	178,734	--	178,734
Total assets	<u>\$ 21,938,008</u>	<u>\$ 2,696,872</u>	<u>\$ 24,634,880</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Current Liabilities:			
Current maturities of long-term debt	\$ 289,291	\$ --	\$ 289,291
Accounts payable	290,952	--	290,952
Accrued employee compensation	390,908	--	390,908
Payroll taxes withheld and accrued	80,687	--	80,687
Accrued interest payable	14,697	--	14,697
Senior housing deposits	80,704	--	80,704
Estimated third-party payor settlements	193,000	--	193,000
Deferred succeeding year property tax	<u>291,000</u>	<u>--</u>	<u>291,000</u>
Total current liabilities	1,631,239	--	1,631,239
Long-Term Debt, less current maturities	1,856,331	--	1,856,331
Deferred Inflows of Resources	99,193	--	99,193
Net Position:			
Invested in capital assets, net of related debt	8,612,283	--	8,612,283
Restricted - expendable	200,000	2,696,872	2,896,872
Unrestricted	<u>9,538,962</u>	<u>--</u>	<u>9,538,962</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 21,938,008</u>	<u>\$ 2,696,872</u>	<u>\$ 24,634,880</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Consolidating Statements of Net Position
June 30, 2012

ASSETS

	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Current Assets:			
Cash	\$ 802,398	\$ --	\$ 802,398
Patient receivables, net	1,242,060	--	1,242,060
Other receivables	65,308	--	65,308
Inventory	176,402	--	176,402
Prepaid expense	83,731	--	83,731
Succeeding year property tax receivable	291,000	--	291,000
Internally designated assets	456,734	--	456,734
Total current assets	3,117,633	--	3,117,633
Designated Assets:			
Internally designated assets	7,091,673	--	7,091,673
Restricted assets	200,085	2,485,892	2,685,977
Current portion	(456,734)	--	(456,734)
	6,835,024	2,485,892	9,320,916
Depreciable Capital Assets, Net	11,495,158	--	11,495,158
Non-depreciable Capital Assets	192,729	--	192,729
Other Assets	176,464	--	176,464
Total assets	<u>\$ 21,817,008</u>	<u>\$ 2,485,892</u>	<u>\$ 24,302,900</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Current Liabilities:			
Current maturities of long-term debt	\$ 278,540	\$ --	\$ 278,540
Accounts payable	454,709	--	454,709
Accrued employee compensation	350,819	--	350,819
Payroll taxes withheld and accrued	18,811	--	18,811
Accrued interest payable	16,470	--	16,470
Senior housing deposits	79,201	--	79,201
Estimated third-party payor settlements	457,000	--	457,000
Deferred succeeding year property tax	291,000	--	291,000
Total current liabilities	1,946,550	--	1,946,550
Long-Term Debt, less current maturities	2,145,622	--	2,145,622
Deferred Inflows of Resources	147,365	--	147,365
Net Position:			
Invested in capital assets, net of related debt	9,217,001	--	9,217,001
Restricted - expendable	200,085	2,485,892	2,685,977
Unrestricted	8,160,385	--	8,160,385
Total liabilities, deferred inflows of resources, and net position	<u>\$ 21,817,008</u>	<u>\$ 2,485,892</u>	<u>\$ 24,302,900</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Consolidating Statements of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2013

	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Revenue:				
Net patient service revenue	\$ 11,804,323	\$ --	\$ --	\$ 11,804,323
Other revenue	<u>1,389,243</u>	<u>--</u>	<u>--</u>	<u>1,389,243</u>
Total revenue	13,193,566	--	--	13,193,566
Expenses:				
Nursing service	2,524,091	--	--	2,524,091
Other professional service	4,723,055	--	--	4,723,055
Senior housing	462,420	--	--	462,420
General service	1,446,611	--	--	1,446,611
Fiscal and administrative service	2,848,299	--	--	2,848,299
Provision for depreciation	1,125,366	--	--	1,125,366
Amortization	<u>25,838</u>	<u>--</u>	<u>--</u>	<u>25,838</u>
Total expenses	<u>13,155,680</u>	<u>--</u>	<u>--</u>	<u>13,155,680</u>
Operating Income	37,886	--	--	37,886
Non-Operating Revenues (Expenses):				
County taxes	300,204	--	--	300,204
Noncapital grants and contributions	475,856	19,209	--	495,065
Investment income	46,581	231,426	--	278,007
Loss on disposal of assets	(626)	--	--	(626)
Interest expense	(94,916)	--	--	(94,916)
Foundation expenses	<u>--</u>	<u>(39,655)</u>	<u>589</u>	<u>(39,066)</u>
Non-operating revenues, net	<u>727,099</u>	<u>210,980</u>	<u>589</u>	<u>938,668</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	764,985	210,980	589	976,554
Capital Grants and Contributions	<u>8,789</u>	<u>--</u>	<u>(589)</u>	<u>8,200</u>
Increase in Net Position	773,774	210,980	--	984,754
Net Position Beginning of Year	<u>17,577,471</u>	<u>2,485,892</u>	<u>--</u>	<u>20,063,363</u>
Net Position End of Year	<u>\$ 18,351,245</u>	<u>\$ 2,696,872</u>	<u>\$ --</u>	<u>\$ 21,048,117</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Consolidating Statements of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2012

	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Revenue:				
Net patient service revenue	\$ 11,467,811	\$ --	\$ --	\$ 11,467,811
Other revenue	<u>1,321,582</u>	<u>--</u>	<u>--</u>	<u>1,321,582</u>
Total revenue	12,789,393	--	--	12,789,393
Expenses:				
Nursing service	2,451,233	--	--	2,451,233
Other professional service	4,300,571	--	--	4,300,571
Senior housing	447,434	--	--	447,434
General service	1,476,538	--	--	1,476,538
Fiscal and administrative service	3,020,690	--	--	3,020,690
Provision for depreciation	1,170,063	--	--	1,170,063
Amortization	<u>24,555</u>	<u>--</u>	<u>--</u>	<u>24,555</u>
Total expenses	<u>12,891,084</u>	<u>--</u>	<u>--</u>	<u>12,891,084</u>
Operating Loss	(101,691)	--	--	(101,691)
Non-Operating Revenues (Expenses):				
County taxes	300,250	--	--	300,250
Noncapital grants and contributions	18,118	53,022	--	71,140
Investment income	66,758	93,720	--	160,478
Gain on disposal of assets	55	--	--	55
Interest expense	(105,303)	--	--	(105,303)
Foundation expenses	<u>--</u>	<u>(58,401)</u>	<u>52,473</u>	<u>(5,928)</u>
Non-operating revenues, net	<u>279,878</u>	<u>88,341</u>	<u>52,473</u>	<u>420,692</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	178,187	88,341	52,473	319,001
Capital Grants and Contributions	<u>57,796</u>	<u>--</u>	<u>(52,473)</u>	<u>5,323</u>
Increase in Net Position	235,983	88,341	--	324,324
Net Position Beginning of Year	<u>17,341,488</u>	<u>2,397,551</u>	<u>--</u>	<u>19,739,039</u>
Net Position End of Year	<u>\$ 17,577,471</u>	<u>\$ 2,485,892</u>	<u>\$ --</u>	<u>\$ 20,063,363</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2013</u>		<u>2012</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 1,095,369	54.7%	\$ 1,157,272	70.6%
31 - 90	618,568	30.9	385,322	23.5
91 - 120	91,007	4.6	69,323	4.2
121 and over	196,371	9.8	28,143	1.7
	<u>2,001,315</u>	<u>100.0%</u>	<u>1,640,060</u>	<u>100.0%</u>
Allowance for doubtful accounts	240,000		130,000	
Allowance for contractual adjustments	<u>362,000</u>		<u>268,000</u>	
	<u>\$ 1,399,315</u>		<u>\$ 1,242,060</u>	

Allowance for Doubtful Accounts:

	<u>Year ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Balance, beginning	\$ 130,000	\$ 125,000
Provision for bad debts	303,896	285,835
Recoveries of accounts previously written off	<u>223,959</u>	<u>303,131</u>
	657,855	713,966
Accounts written off	<u>417,855</u>	<u>583,966</u>
Balance, ending	<u>\$ 240,000</u>	<u>\$ 130,000</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Inventory/Prepaid Expense
June 30,

	<u>2013</u>	<u>2012</u>
<u>Inventory</u>		
Central supply	\$ 58,697	\$ 70,778
Pharmacy	89,013	81,747
Dietary	24,683	23,877
Auxiliary	<u>2,694</u>	<u>--</u>
	<u>\$ 175,087</u>	<u>\$ 176,402</u>
 <u>Prepaid Expense</u>		
Insurance	\$ 67,280	\$ 64,580
Contracts	<u>19,215</u>	<u>19,151</u>
	<u>\$ 86,495</u>	<u>\$ 83,731</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Patient Service Revenue
Year ended June 30,

	2013		
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Swing Bed</u>
Daily Patient Services:			
Medical and surgical	\$ 312,530	\$ --	\$ --
Swing bed - SNF	--	--	267,166
NF care	--	--	32,570
	<u>312,530</u>	<u>--</u>	<u>299,736</u>
Other Nursing Services:			
Observation	--	76,360	--
Operating and recovery rooms	24,489	2,191,973	--
Central services and supply	6,656	3,553	8,076
Emergency services	4,256	790,792	--
Cardiac rehabilitation	--	90,455	--
	<u>35,401</u>	<u>3,153,133</u>	<u>8,076</u>
Other Professional Services:			
Emergency room physicians	40,250	465,162	3,896
Laboratory and blood bank	154,156	2,225,515	18,211
Electrocardiology	7,020	169,378	540
Cardiovascular diagnostics	6,428	138,610	800
Radiology	49,596	2,427,102	6,541
Pharmacy	417,763	1,156,208	121,125
Anesthesiology	1,236	896,016	--
Respiratory therapy	158,130	205,013	50,836
Physical therapy	8,450	808,442	78,135
Occupational therapy	3,855	112,395	69,390
Speech therapy	3,300	55,991	10,200
Massage therapy	15,635	--	--
Ambulance	--	553,271	--
Public health	--	212,259	--
	<u>865,819</u>	<u>9,425,362</u>	<u>359,674</u>
	<u>\$ 1,213,750</u>	<u>\$ 12,578,495</u>	<u>\$ 667,486</u>

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2013		2012
LTC	Total	Total
\$ --	\$ 312,530	\$ 349,050
--	267,166	277,550
<u>1,340,539</u>	<u>1,373,109</u>	<u>1,274,085</u>
1,340,539	1,952,805	1,900,685
--	76,360	101,570
--	2,216,462	1,883,958
28,301	46,586	60,569
--	795,048	906,295
--	90,455	65,830
<u>28,301</u>	<u>3,224,911</u>	<u>3,018,222</u>
--	509,308	530,087
--	2,397,882	2,296,599
--	176,938	156,883
--	145,838	132,671
--	2,483,239	2,287,831
218,663	1,913,759	1,940,657
--	897,252	687,553
--	413,979	436,786
--	895,027	528,196
--	185,640	138,376
--	69,491	31,900
--	15,635	12,770
--	553,271	519,986
--	212,259	394,780
<u>218,663</u>	<u>10,869,518</u>	<u>10,095,075</u>
<u>\$ 1,587,503</u>	<u>\$ 16,047,234</u>	<u>\$ 15,013,982</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Revenue and Related Adjustments
Year ended June 30,

	<u>2013</u>	<u>2012</u>
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 16,047,234	\$ 15,013,982
Contractual adjustments	(3,793,418)	(3,187,138)
Discounts and allowances	(27,207)	(2,887)
Provision for bad debts	(303,896)	(285,835)
Charity care	(118,390)	(70,311)
	<u>\$ 11,804,323</u>	<u>\$ 11,467,811</u>
 <u>Other Revenue</u>		
Senior housing revenue - independent living	\$ 595,468	\$ 543,662
Senior housing revenue - assisted living	476,645	477,864
Cafeteria	36,192	39,064
Congregate meals	96,765	77,597
Employee prescriptions	76,337	80,040
Public health county support	75,000	75,000
Purchase discounts	3,864	235
Medical records transcript fees	1,189	1,680
Rental income	<u>27,783</u>	<u>26,440</u>
	<u>\$ 1,389,243</u>	<u>\$ 1,321,582</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Administrative:		
Salaries and wages	\$ 125,979	\$ 119,565
Supplies and other expense	<u>4,877</u>	<u>2,688</u>
	130,856	122,253
Medical and Surgical:		
Salaries and wages	708,298	703,709
Supplies and other expense	<u>36,863</u>	<u>47,441</u>
	745,161	751,150
Long-Term Care:		
Salaries and wages	742,243	740,805
Supplies and other expense	<u>61,636</u>	<u>62,902</u>
	803,879	803,707
Operating and Recovery Rooms:		
Salaries and wages	219,229	190,064
Supplies and other expense	<u>229,098</u>	<u>187,369</u>
	448,327	377,433
Central Services and Supply:		
Salaries and wages	89,233	87,277
Supplies and other expense	<u>51,523</u>	<u>45,903</u>
	140,756	133,180
Emergency Services:		
Salaries and wages	209,136	205,889
Supplies and other expense	<u>24,849</u>	<u>38,320</u>
	233,985	244,209

(continued next page)

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses - continued
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Cardiac Rehabilitation:		
Salaries and wages	\$ 17,666	\$ 16,762
Supplies and other expense	<u>3,461</u>	<u>2,539</u>
	<u>21,127</u>	<u>19,301</u>
	<u>\$ 2,524,091</u>	<u>\$ 2,451,233</u>

SUMMARY

Salaries and wages	\$ 2,111,784	\$ 2,064,071
Supplies and other expense	<u>412,307</u>	<u>387,162</u>
	<u>\$ 2,524,091</u>	<u>\$ 2,451,233</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Emergency Room Physicians:		
Professional fees	\$ 852,890	\$ 817,284
Laboratory and Blood Bank:		
Salaries and wages	367,287	362,824
Professional fees	54,871	42,086
Supplies and other expense	<u>274,954</u>	<u>270,293</u>
	697,112	675,203
Electrocardiology:		
Professional fees	13,774	10,841
Cardiovascular Diagnostics:		
Salaries and wages	--	1,122
Supplies and other expense	<u>24,372</u>	<u>23,939</u>
	24,372	25,061
Radiology:		
Salaries and wages	257,562	255,116
Supplies and other expense	<u>437,849</u>	<u>435,039</u>
	695,411	690,155
Pharmacy:		
Salaries and wages	155,030	153,493
Supplies and other expense	<u>538,431</u>	<u>488,031</u>
	693,461	641,524
Anesthesiology:		
Professional fees	412,076	316,930
Supplies and other expense	<u>9,295</u>	<u>9,721</u>
	421,371	326,651
Respiratory Therapy:		
Salaries and wages	37,515	34,410
Supplies and other expense	<u>80,184</u>	<u>74,810</u>
	117,699	109,220
Physical Therapy:		
Salaries and wages	220,440	67,109
Professional fees	115,989	139,116
Supplies and other expense	<u>54,431</u>	<u>5,342</u>
	390,860	211,567

(continued next page)

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - continued
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Occupational Therapy:		
Salaries and wages	\$ 81,213	\$ 938
Professional fees	24,131	80,570
Supplies and other expense	<u>1,813</u>	<u>76</u>
	107,157	81,584
Speech Therapy:		
Salaries and wages	56,769	8,647
Professional fees	--	17,340
Supplies and other expense	<u>2,743</u>	<u>1,433</u>
	59,512	27,420
Massage Therapy:		
Supplies and other expense	13,049	9,242
Ambulance:		
Salaries and wages	105,468	95,873
Supplies and other expense	<u>45,073</u>	<u>41,259</u>
	150,541	137,132
Outpatient Clinics:		
Salaries and wages	23,209	23,154
Supplies and other expense	<u>6,610</u>	<u>2,001</u>
	29,819	25,155
Home Health/Public Health:		
Salaries and wages	193,582	237,632
Supplies and other expense	<u>55,080</u>	<u>76,914</u>
	248,662	314,546
Medical Records:		
Salaries and wages	180,772	169,354
Supplies and other expense	<u>26,593</u>	<u>28,632</u>
	207,365	197,986
	<u>\$ 4,723,055</u>	<u>\$ 4,300,571</u>

SUMMARY

Salaries and wages	\$ 1,678,847	\$ 1,409,672
Professional fees	1,473,731	1,424,167
Supplies and other expense	<u>1,570,477</u>	<u>1,466,732</u>
	<u>\$ 4,723,055</u>	<u>\$ 4,300,571</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Senior Housing Expenses
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Springvale - Independent Living:		
Salaries and wages	\$ 106,810	\$ 98,309
Utilities	38,134	37,455
Repairs and maintenance	--	1,410
Supplies and other expense	<u>68,511</u>	<u>77,882</u>
	213,455	215,056
Springvale - Assisted Living:		
Salaries and wages	210,808	202,860
Utilities	28,944	24,019
Supplies and other expense	<u>9,213</u>	<u>5,499</u>
	248,965	232,378
	<u>\$ 462,420</u>	<u>\$ 447,434</u>

SUMMARY

Salaries and wages	\$ 317,618	\$ 301,169
Supplies and other expense	<u>144,802</u>	<u>146,265</u>
	<u>\$ 462,420</u>	<u>\$ 447,434</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
General Service Expenses
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Dietary:		
Salaries and wages	\$ 379,951	\$ 341,167
Food, supplies and other expense	<u>266,977</u>	<u>283,567</u>
	646,928	624,734
Plant Operation and Maintenance:		
Salaries and wages	210,988	205,679
Utilities	130,325	141,112
Supplies and other expense	<u>134,918</u>	<u>172,910</u>
	476,231	519,701
Housekeeping:		
Salaries and wages	181,860	164,282
Supplies and other expense	<u>30,296</u>	<u>59,714</u>
	212,156	223,996
Laundry and Linen:		
Salaries and wages	830	291
Supplies and other expense	<u>110,466</u>	<u>107,816</u>
	<u>111,296</u>	<u>108,107</u>
	<u>\$ 1,446,611</u>	<u>\$ 1,476,538</u>

SUMMARY

Salaries and wages	\$ 773,629	\$ 711,419
Supplies and other expense	<u>672,982</u>	<u>765,119</u>
	<u>\$ 1,446,611</u>	<u>\$ 1,476,538</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Fiscal and Administrative Service Expenses
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Fiscal and Administrative Service:		
Salaries and wages	\$ 382,995	\$ 360,234
Professional fees	261,543	272,902
Recruiting	37,484	77,735
Supplies and other expense	<u>197,882</u>	<u>185,224</u>
	879,904	896,095
Information Systems:		
Supplies and other expense	176,885	193,311
Employee Welfare:		
Social Security tax	384,214	354,550
Iowa Public Employees' Retirement System	457,328	393,350
Group health insurance	679,040	942,712
Workers' compensation insurance	66,890	72,322
Unemployment expense	--	1,347
Other employee benefits	<u>45,156</u>	<u>44,362</u>
	1,632,628	1,808,643
Community Development:		
Salaries and wages	52,631	50,811
Supplies and other expense	<u>6,224</u>	<u>3,562</u>
	58,855	54,373
Insurance:		
Liability and property	50,039	48,052
Infection Control:		
Salaries and wages	48,344	19,521
Supplies and other expense	<u>1,644</u>	<u>695</u>
	49,988	20,216
	<u>\$ 2,848,299</u>	<u>\$ 3,020,690</u>

SUMMARY

Salaries and wages	\$ 483,970	\$ 430,566
Employee benefits	1,632,628	1,808,643
Professional fees	261,543	272,902
Supplies and other expense	<u>470,158</u>	<u>508,579</u>
	<u>\$ 2,848,299</u>	<u>\$ 3,020,690</u>

(continued next page)

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Fiscal and Administrative Service Expenses - continued
Year ended June 30,

	<u>2013</u>	<u>2012</u>
<u>SUMMARY OF EXPENSES</u>		
Salaries and wages	\$ 5,365,848	\$ 4,916,897
Employee benefits	1,632,628	1,808,643
Professional fees	1,735,274	1,697,069
Supplies and other expense	<u>3,270,726</u>	<u>3,273,857</u>
	<u>\$ 12,004,476</u>	<u>\$ 11,696,466</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Comparative Statistics
Year ended June 30,

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Acute Care:					
Admissions	167	175	204	271	310
Discharges	170	174	203	273	308
Patient Days	470	545	562	715	923
Average Length of Stay	2.76	3.13	2.77	2.62	3.00
Average Occupied Beds	1.3	1.5	1.5	2.0	2.5
Swing Bed:					
Admissions	105	107	82	58	82
Discharges	106	106	81	58	85
SNF Days	752	792	512	489	587
NF Days	127	120	93	43	81
Long-Term Care Patient Days	9,774	9,442	9,958	9,392	9,243
Combined Average Occupied Beds	30.5	29.8	30.5	29.1	29.7
Outpatient Occasions of Service	47,302	42,469	38,401	36,924	38,516
Home Health Visits	--	--	--	9,959	10,163

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Comparative Statements of Net Position (Hospital Only)
June 30,

	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash	\$ 1,231,817	\$ 802,398
Patient receivables, net	1,399,315	1,242,060
Other receivables	70,591	65,308
Inventory	175,087	176,402
Prepaid expense	86,495	83,731
Succeeding year property tax receivable	291,000	291,000
Internally designated assets	<u>428,988</u>	<u>456,734</u>
Total current assets	3,683,293	3,117,633
Other Assets:		
Designated and restricted assets	7,318,076	6,835,024
Capital assets, net	10,757,905	11,687,887
Note receivable	28,108	--
Other assets	<u>150,626</u>	<u>176,464</u>
Total other assets	<u>18,254,715</u>	<u>18,699,375</u>
Total assets	<u>\$ 21,938,008</u>	<u>\$ 21,817,008</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 289,291	\$ 278,540
Accounts payable	290,952	454,709
Accrued expenses	471,595	369,630
Accrued interest payable	14,697	16,470
Senior housing deposits	80,704	79,201
Estimated third-party payor settlements	193,000	457,000
Deferred succeeding year property tax receivable	<u>291,000</u>	<u>291,000</u>
Total current liabilities	1,631,239	1,946,550
Long-Term Debt, Net	<u>1,856,331</u>	<u>2,145,622</u>
Total liabilities	3,487,570	4,092,172
Deferred Inflows of Resources:		
Deferred revenue	99,193	147,365
Net Position	<u>18,351,245</u>	<u>17,577,471</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 21,938,008</u>	<u>\$ 21,817,008</u>

See Independent Auditor's Report.

<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 864,385	\$ 1,547,971	\$ 831,204
1,089,996	1,114,832	1,426,892
67,909	50,680	24,988
150,293	225,017	216,126
91,335	81,130	71,200
291,000	291,000	289,000
386,396	430,495	475,170
<u>2,941,314</u>	<u>3,741,125</u>	<u>3,334,580</u>
6,184,391	5,420,288	4,414,024
12,074,861	12,421,893	12,855,858
11,685	23,371	22,582
201,019	224,355	246,745
<u>18,471,956</u>	<u>18,089,907</u>	<u>17,539,209</u>
<u>\$ 21,413,270</u>	<u>\$ 21,831,032</u>	<u>\$ 20,873,789</u>
\$ 268,224	\$ 258,327	\$ 248,831
356,709	514,458	489,081
392,865	561,717	531,473
18,172	19,804	21,371
81,649	86,306	80,693
239,000	892,000	493,000
291,000	291,000	289,000
<u>1,647,619</u>	<u>2,623,612</u>	<u>2,153,449</u>
<u>2,424,163</u>	<u>2,692,387</u>	<u>2,950,714</u>
4,071,782	5,315,999	5,104,163
--	--	--
<u>17,341,488</u>	<u>16,515,033</u>	<u>15,769,626</u>
<u>\$ 21,413,270</u>	<u>\$ 21,831,032</u>	<u>\$ 20,873,789</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Comparative Statements of Revenues, Expenses and Changes in Net Position (Hospital Only)
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Patient Service Revenue	\$ 16,047,234	\$ 15,013,982
Adjustments to Patient Service Revenue	<u>(4,242,911)</u>	<u>(3,546,171)</u>
Net Patient Service Revenue	11,804,323	11,467,811
Other Revenue	<u>1,389,243</u>	<u>1,321,582</u>
Total Revenue	13,193,566	12,789,393
Expenses	<u>13,155,680</u>	<u>12,891,084</u>
Operating Income (Loss)	37,886	(101,691)
Non-Operating Revenues, Net	<u>727,099</u>	<u>279,878</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions and Change in Accounting Estimate	764,985	178,187
Capital Grants and Contributions	8,789	57,796
Change in Accounting Estimate	<u>--</u>	<u>--</u>
Increase in Net Position	<u>\$ 773,774</u>	<u>\$ 235,983</u>

See Independent Auditor's Report.

<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 13,420,567	\$ 14,179,659	\$ 14,970,898
<u>(2,643,024)</u>	<u>(3,096,108)</u>	<u>(3,558,164)</u>
10,777,543	11,083,551	11,412,734
<u>1,344,515</u>	<u>1,376,698</u>	<u>1,375,328</u>
12,122,058	12,460,249	12,788,062
<u>12,006,634</u>	<u>12,136,600</u>	<u>12,297,016</u>
115,424	323,649	491,046
<u>305,593</u>	<u>421,758</u>	<u>511,653</u>
421,017	745,407	1,002,699
160,438	--	67,557
<u>245,000</u>	<u>--</u>	<u>--</u>
<u>\$ 826,455</u>	<u>\$ 745,407</u>	<u>\$ 1,070,256</u>

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees
Humboldt County Memorial Hospital
Humboldt, Iowa

We have audited the financial statements of Humboldt County Memorial Hospital as of and for the year ended June 30, 2013, and have issued our report thereon dated October 8, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Humboldt County Memorial Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Humboldt County Memorial Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees
Humboldt County Memorial Hospital

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 13-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Humboldt County Memorial Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Response to Findings

Humboldt County Memorial Hospital's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Hospital's internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Demetrius Bell, CPA & Co. P.C.

Atlantic, Iowa
October 8, 2013

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Schedule of Findings
Year ended June 30, 2013

PART I - SIGNIFICANT DEFICIENCIES

13-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital. However, this situation is common in rural hospitals.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the members be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

PART II - REQUIRED STATUTORY REPORTING

13-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2013 did not exceed amounts budgeted therefore.

13-II-B Questionable Expenses: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expense was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Various Organizations	Employee recognition banquet	\$ 4,470

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Board feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

13-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Schedule of Findings
Year ended June 30, 2013

PART II - REQUIRED STATUTORY REPORTING - Continued

13-II-D Business Transactions: Business transactions between the Hospital and Hospital officials and/or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mike Porter, Maintenance Director, Owner of C & M Repair	Miscellaneous ambulance repairs	\$ 2,964

The transactions with C & M Repair do not appear to represent conflicts of interest since the purchases are not from an entity in which a trustee has a pecuniary interest and another department director approves the purchases.

13-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

13-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

13-II-G Economic Development: During the year ended June 30, 2013, the Hospital paid \$1,000 to the Humboldt County Development Association. The Hospital Board has documented the public benefits received from this expenditure, however, it is disclosed here for public information.

According to Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body to evaluate the public benefits to be obtained and discusses the specific criteria to be considered in documenting public purpose.

Recommendation: The Board should continue to evaluate and document the public purpose served by these expenditures before authorizing further payments.

Response: We will continue to evaluate and document the public purpose in the future.

Conclusion: Response accepted.

* * *